

Olympia, Washington 98504-3096

December 15, 2004

BULLETIN

TO: ALL STORES AND CONTRACT LIQUOR STORES

FROM: Steve Burnell, Wine Program Manager

SUBJECT: Merchandise Bulletin #68

1) JANUARY WINE RETAIL PRICING- WINE STRATEGY 7, IMPLEMENTATION

The Board approved the Wine Strategy Implementation Plan in July 2004. This five-year plan encompasses seven different strategies to improve the wine program in WSLCB retail outlets, including the following short and long term elements which make up strategy seven, Retail Pricing:

Short Term

- o Complete a pricing analysis on the top 100 selling LCB wines by August 27, 2004 to determine which items are below the market price
- o For those items below the market price the LCB will increase the markup formula on those items to have the LCB retail price reflect the market price

Long Term

- o Use the LCB market share to determine future consideration for markup increases. If the LCB share rises to over 10% as compared with the private sector a markup price increase will take place.

On December 8, 2004, the Board approved the following implementation plan for Strategy 7 (Retail Pricing):

Short Term Implementation

Effective January 1, 2005, adjust retail prices on the top 100 wines to reflect the average market price shown in the Nielsen data.

Long Term Implementation

Monitor and review the price adjustment effect on market share, sales, and revenue. If the LCB share rises to over 10% as compared with the private sector a markup price increase will take place.

This action will impact retail pricing of some wines effective JANUARY 1, 2005.

Attached is a spreadsheet of the top 100 wines with December 2004 and January 2005 retail prices. Please review these price changes and plan your ordering accordingly.

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PLAINTIFF'S EXHIBIT	
CASE NO.	CV04-0360P
EXHIBIT NO.	226



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WASHINGTON STATE LIQUOR CONTROL BOARD
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Supplement to Merchandise Bulletin #68

BACKGROUND ON STATE STORE WINE PRICING FOR STORE MANAGERS AND ASSISTANT MANAGERS

Note: This sheet has not been prepared as a handout for customers. It provides background on the wine strategy for district managers, store managers and assistant managers, who may be asked questions by customers about wine price increases. Employees with additional questions about the price increases can address them to: Bob Burdick, Communications Director, WSLCB. Phone: 360-664-1774 Email: rb@liq.wa.gov

A study of the LCB's pricing conducted by a WSU economist late in 2003 found LCB stores' prices were sometimes lower than a variety of retail wine sellers (groceries, markets, wine and beer shops, big-box retailers). In some instances, LCB prices were quite a bit lower; in others very near average. The study was authorized by the Board as part of an overall plan to develop a wine strategy for LCB stores.

Following the WSU study, the Board conducted a second study comparing LCB prices for our top 100 volume wines with the Nielsen average prices for the same wines in major grocery chains during a 12-month period in 2003 and 2004. This study also found that LCB average prices were lower than the Nielsen average prices in the chains for 89 of the 100 wines.

In December 2004, following a public meeting attended by a wide range of stakeholder groups, including representatives of the wine and grocery industries, the Board voted to raise its wine prices on the those wines in the top 100 which were priced lower than the chain stores to achieve parity with the average Nielsen prices.

The price increases necessary to achieve parity with the Nielsen averages are not great. Forty-six of the 89 wines affected are being increased \$1 or less. Another 33 of the wines will be increased no more than \$2. The average price increase for all 89 wines is less than \$1.25 per bottle.

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The first of three phases of price increases went into effect in January 1. Subsequent price adjustments will be on April 1 and July 1. Price increases of more than \$1.00 per bottle are being phased in to lessen their impact.

The pricing strategy also includes a long-range plan for a future markup price increase if the LCB's share of the state's total wine market exceeds 10 percent. State stores currently sell 8.3 percent of all wines sold in Washington. The transition to this long-range strategy has not been fully developed. The current price increases will help define with much greater certainty how wine pricing in LCB stores affects sales and market share. This data will assist the Board in implementation of the long-range plan.

The Washington State Liquor Control Board intends to remain in the wine business. Wines will continue to remain an excellent value in our stores and we will continue to implement merchandising strategies to guide the sale and merchandising of wine.

The LCB's Wine Strategy calls for 1) tightening the focus of inventory to highlight proven winners; 2) continuing emphasis on Washington state wines; 3) more attractive and informative in-store displays; 4) developing specialty outlets in new locations such as airports not currently being served by other retailers; and 5) better training for store personnel who sell wine.

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